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FROM THE EDITOR

**Take the time to get it right**

There is an effort, now accelerating, to revamp local economic-development strategy and structure – a process most would agree is long overdue.

The pieces of a winning economic-development strategy for Orange County have been around for years. They include our quality of life, an educated workforce, proximity to research campuses, access to transportation and a central location in a growing area.

The sticking point over the past few years has not been in these raw materials, but in the way to use them; there’s been a lack of consensus about how to market our attributes, and what kinds of businesses we want to attract.

Fortunately, various local governments and citizen advisory boards have begun putting the results of study and contemplation on the subject of economic development into practice. Hillsborough has had a good deal of success in leveraging public investment. Chapel Hill has taken a hard look at the commercial and retail market in building its economic-development office. And Carrboro has delved extensively into what makes a thriving local economy.

Each of the towns brings a unique perspective to the table. In crafting a new economic strategy with the county, the university and the business community, representatives of the towns have an obligation to pass on their communities’ perspectives on what a successful economy should look like.

Likewise, any new entity that is created should work in harmony with the strategies developed by the citizens’ representatives.

As organizers of the effort have readily admitted, there will be points of philosophical difference. One likely area is in the manner that resources should be split between recruitment of outside companies and growing the businesses that are already here. The offering of incentives, not a common practice in this county, is another issue in which the public investors in this new enterprise will have to reach agreement among themselves and with the business community, which has encouraged the idea.

Given the multiple public agencies, governments, organizations and businesses that will be involved in the project, we urge that representatives of the public and private sectors take the time to craft an economic-development effort that takes advantage of what we offer, respects our values and compromises neither.

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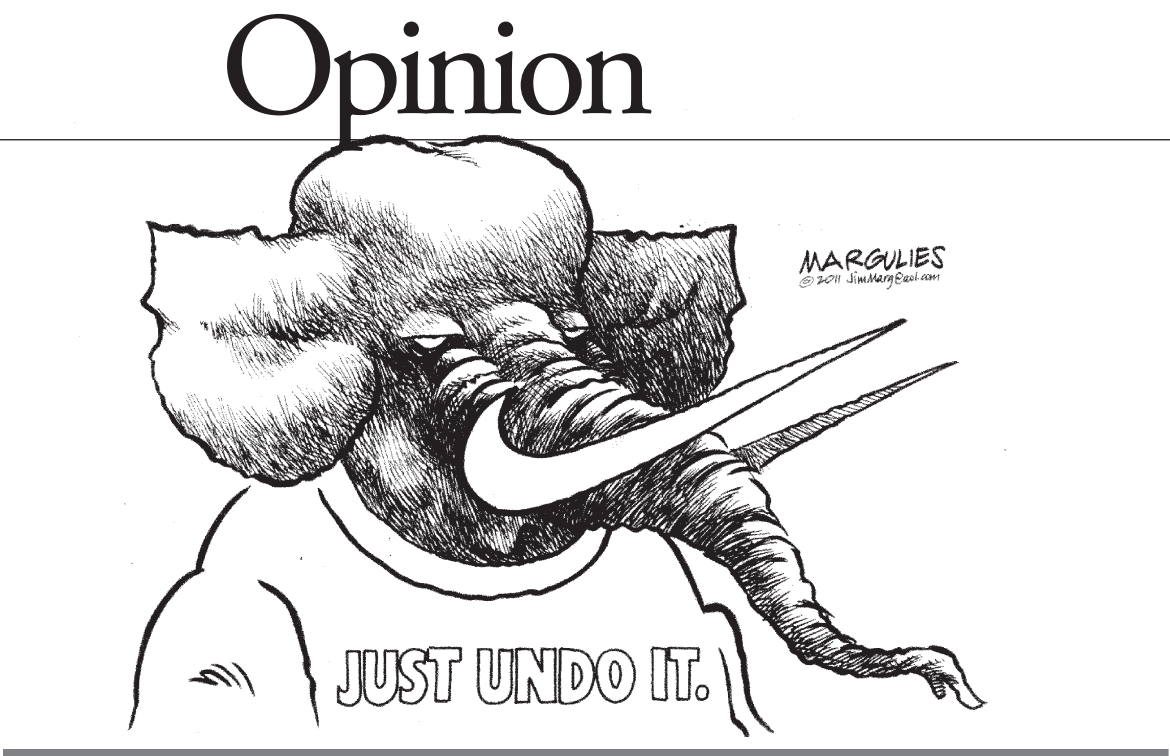
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## Nonprofit struggles imperil North Carolina

DAVID HEINEN

It’s not surprising that nonprofits have struggled during the Great Recession, as charitable giving and government investment in public structures have declined and the demand for nonprofits’ essential services has risen dramatically. It’s also unsurprising that these struggles are deeply affecting the most vulnerable North Carolinians. As support for nonprofits wanes, children, seniors, low-income families, people with disabilities, victims of domestic violence and others who rely on their services can’t get the level of care they need.

What may be less obvious is that nonprofits’ struggles affect the quality of life of all North Carolinians, not just those who rely on the social safety net. The nonprofit sector provides about 400,000 jobs in North Carolina, about 10 percent of the state’s workforce. This year, however, 40 percent of North Carolina nonprofits have cut staff. When nonprofits are forced to downsize, the state’s economic recovery stalls due to job loss, less spending in local businesses and the resulting declines in income-tax and sales-tax revenue.

Policymakers can help mitigate two of the major challenges facing nonprofits: disproportionately steep cuts in state funding and contracting practices that undercut the ability of nonprofits to effectively deliver services. The first step, however, is recognizing and acknowledging these dual problems.

Overall, North Carolina nonprofits experienced a 26 percent decline in state support last year. According to a recent report from the Urban Institute, North Carolina’s decreased investment in nonprofits was the fourth-worst of any state in 2009.

The Urban Institute report and a new survey by the N.C. Center for Nonprofits highlight many of the systemic government contracting problems that nonprofits are experiencing. These include:

- “Complexification” – Three-fourths of state-funded nonprofits report that the grant application and reporting process is too complicated. This forces organizations to use their limited staff resources for filling out paperwork rather than for providing services.
- Hidden underfunding – More often than not, the state doesn’t pay the full cost of the services that nonprofits provide. This leaves nonprofits without the resources to pay for basic organizational costs, such as rent, office equipment and staff health coverage.
- Government inconsistency – Nonprofits say that some state agencies view contracts as “evolving documents.” Sudden midstream changes to the scope of work and expected outcomes can add significantly to nonprofits’ expenses and reduce the quality of services North Carolinians receive.
- Late payments – This year, 60 percent of state-

funded nonprofits have experienced late payments on government contracts. This essentially forces nonprofits to involuntarily bankroll the government services they provide – often at the expense of nonprofit employees.

As a result of these funding cuts and contracting problems, nonprofits have been forced to streamline their already efficient operations – downsizing staff, cutting salaries and benefits and taking out lines of credit. With nothing further to cut internally, a third of North Carolina nonprofits have had to reduce their level of service this year. With a state budget shortfall of at least \$3.5 billion expected next year, North Carolinians in need could face even deeper cuts. Here are three ways policymakers can help ease this pain.

Acknowledge that nonprofits are a major part of the state’s economy. Job growth is a top priority for the incoming leadership in the General Assembly. If they are serious about this pledge, legislators will need to look beyond tax cuts, which could actually lead to overall job loss if they mean further cuts to nonprofits’ services. And as lawmakers consider proposals to bolster small businesses, it’s essential also to promote job growth in small nonprofits.

Protect the state’s investment in the vital services provided by nonprofits. There’s a misconception that nonprofits can turn to private philanthropy to make up for cuts in state funding. In reality, individual, corporate and foundation giving have all declined significantly each of the past two years. Nonetheless, this mentality can make nonprofits’ services easy targets for state budget reductions. Legislators can minimize these painful cuts by taking a balanced approach to the budget shortfall. They also should look carefully at the return on investment in nonprofits’ programs to understand the actual cost of potential cuts.

Develop fairer contracting processes for nonprofits. Easing the “complexification” of government contracts may be a win-win solution that saves the state money while providing better-quality services to North Carolinians. By eliminating unclear or redundant reporting and audit requirements, state agencies can free up more resources for direct service. Easing contractual limits on indirect costs can give nonprofits better flexibility to provide services more effectively and efficiently. And when funding is unavailable to reimburse nonprofits on time, state agencies can provide reasonable estimates of expected payment delays.

By working closely with nonprofits, the General Assembly and state government officials can develop collaborative solutions to these problems that will prevent further erosion of the quality of life for all North Carolinians.

*David Heinen is the director of public policy and advocacy for the N.C. Center for Nonprofits.*

## The fight for the survival of public schools

CHRIS FITZSIMON

Most of the education talk in this young General Assembly session has understandably focused on two areas: the potentially devastating budget cuts to public schools and the likelihood that the new Republican majorities will raise the cap on the number of charter schools allowed in the state or remove it completely.

Crippling budget cuts and thousands of layoffs of teachers and teacher assistants are inevitable if Republican leaders continue to refuse to consider raising new revenue to prevent the worst cuts or at least allow the temporary taxes passed in 2009 to continue.

Some change in the charter school cap is all but certain to pass, whether it’s good policy or not. Groups like the N.C. Association of Educators and the N.C. School Boards Association that have traditionally opposed raising the cap have announced publicly they are backing off that opposition now, citing the new political realities in Raleigh.

But there’s another battle over education coming this session that could have more important long-term consequences for public schools than raising the charter cap or even than deeply slashing the education budget.

The battle is for the survival of public schools as we know them. The anti-public school zealots who have long wanted to privatize public education with voucher schemes and tax credits are emboldened by the election of more pro-voucher lawmakers and are planning their dismantling of public education this year.

House Majority Leader Paul Stam told an education-privatization audience last week that he wants to do far more this session than lift the cap on charters. Stam says his dream is that all schools are charters, which would be bad enough, and he doesn’t want to stop there.

Stam told the crowd that he will be introducing a bill in a couple of weeks that would provide a \$2,500 tax credit for families that homeschool their children or send them to private schools. That’s far below the average tuition for private schools in North Carolina, making Stam’s plan really a way to give money to families who can already afford to send their children to non-public schools. He also says it will save the state \$28 million, but the plan is not about the money.

It is about ending the traditional system of public education and turning it over to the vagaries of the market, for profit and nonprofit. Stam’s tax credit and voucher

scheme would drain resources from the already underfunded public schools and shift them to private academies serving the upper-class families who can afford them.

He all but admitted that last week, using the example of legal services, saying that “there are government-run law firms, legal aid, but that does not mean that everyone will do best by going to legal aid.”

Legal-aid lawyers do amazing work, but they are paid far less and have far fewer resources at their disposal than attorneys in large, wealthy law firms. That’s Stam’s vision of the way education should work.

There will be one kind of education for families who don’t have much money: the public schools with far fewer resources than they need and a mandate to educate every child regardless of their academic level or disability. There will be another kind of selective school for wealthy kids: well-funded schools with tuition well out of reach of most families, schools that can pick and choose who they educate, leaving the at-risk kids for somebody else to worry about.

Public schools are supported by all of us because all of our kids attend them and we have a stake in how well they all do. Education is not a product to sell like shoes or potato chips. The market, by definition, has winners and losers. We can’t afford to have kids lose.

The good news is that people in North Carolina don’t want public schools destroyed. A survey last fall by the Elon University Poll found that a clear majority in the state is opposed to a voucher scheme to privatize education.

Stam knows this and told the audience that his plan is a tax credit, not a voucher, because vouchers don’t do as well in the polls. Neither vouchers nor tax credits do well in educating all North Carolina students.

Advocates for high-quality public schools ought to get involved in the charter school debate and work hard to convince lawmakers to raise new revenue to protect education from devastating budget cuts.

But they also must stand up to the gravest threat of all – the destruction of public education that would further divide our society and make it far more difficult for thousands of kids to succeed. Let’s fix public schools, not destroy them.

*Chris Fitzsimon is executive director of N.C. Policy Watch.*

## When people lose their homes, we all lose

JEFF SHAW

Home: It’s the place where, as Robert Frost wrote, when you have to go there, they have to take you in.

A record number of North Carolinians lost that place last year. Foreclosures reached an all-time high, and a new analysis has found that approximately one in every 63 North Carolina housing units was in foreclosure during 2010. This crisis strikes at the core of the American dream.

With temperatures dropping outside, consider the immediate consequences on families expelled from their homes. With the middle class shrinking, consider the impact on our nation if hardworking, everyday people can’t access this traditional path to prosperity.

When people lose their homes, we all lose. Property values fall, harming neighborhoods. The local tax base is diminished, affecting schools and vital public-safety services. The benefits from the safe, stable communities created by homeownership affect everyone.

One small ray of hope in the current bleak picture is that North Carolina is better off than a lot of states. Proactive measures by state leaders to prevent foreclosure have helped the state stay ahead of places like Nevada, where one in 11 homes is in foreclosure, and the nation at large, where one in 45 homes received a foreclosure filing last year. While foreclosures nationwide are expected to peak in 2011, many observers think North Carolina may have seen the worst of the crisis already.

The lesson is to build on our hard-won successes here. We have to preserve the vital public investments that create prosperity.

First, North Carolina must do no harm to our key public structures. Foreclosure-prevention programs help keep our neighborhoods secure and stable. Preserving the successful Home Protection Fund will ensure that more of our people have affordable places to call home.

There are rumblings that some lawmakers want to undermine one of North Carolina’s signature legislative achievements from the last legislative session, the Homeowner and Homebuyer Protection Act.

This law protects consumers against foreclosure-rescue scams, where shady operators try to take advantage of homeowners in crisis. Now is exactly the time when common-sense legislation needs to be in place, protecting North Carolinians. The Homeowner and Homebuyer Protection Act stops shady dealers from destroying neighborhoods and deserves strong support.

We must also recognize that preserving what we have is necessary but not sufficient. When working families are losing their homes and the middle class is shrinking, more needs to be done.

At this point, the foreclosure problem is also a jobs problem. High unemployment is undeniably a main reason that families fall behind on mortgage payments.

North Carolina’s leaders have to protect our state’s jobs. Yes, the state’s budget gap is daunting. But when we’re trying to preserve North Carolina’s recovery, we have to start by preserving jobs. Employed workers are workers that can make mortgage payments.

All options have to be on the table. We need creative job-creation strategies, such as state assistance for small businesses that create new jobs. Perhaps it’s also time to consider a temporary foreclosure moratorium.

North Carolina has shown leadership on foreclosure prevention. If we want economic prosperity, we have to make sure that stays true.

Communities from Murphy to Manteo prosper when we keep people in their homes. With the right choices, we can make sure all North Carolinians have a place to come home to.

*Jeff Shaw is the director of communications at the N.C. Justice Center.*